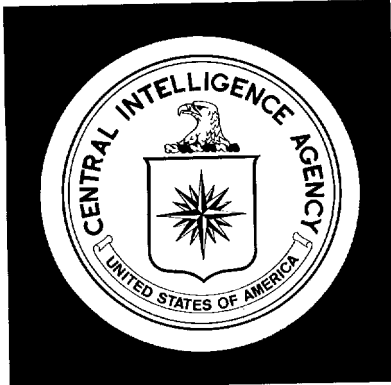


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Top Secret

207

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24 July 1972



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24 July 1972

Central Intelligence Bulletin

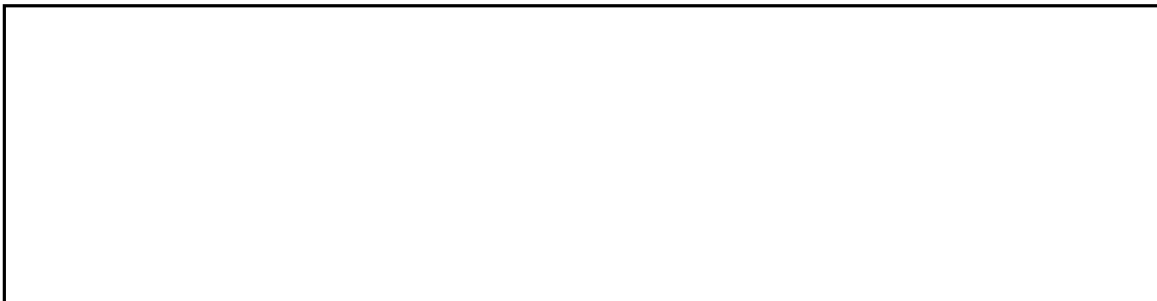
CONTENTS



25X1

LAOS: Souvanna is taking a hard line against a renewed challenge by the rightists. (Page 4)

CHILE: The government is considering a radical currency reform. (Page 6)



25X1

25X1

Approved For Release 2003/06/25 : CIA-RDP79T00975A022400030001-9

Next 3 Page(s) In Document Exempt

Approved For Release 2003/06/25 : CIA-RDP79T00975A022400030001-9

LAOS: The two-month struggle between Prime Minister Souvanna Phouma and rightist elements in the national assembly may be moving toward resolution.

An earlier compromise between Souvanna and his critics broke down when the King refused to invest the prime minister's government until it had received a vote of confidence in the new national assembly. The rightists, led by the powerful Vientiane-based Sananikone family, are interpreting the King's refusal as supporting their position that under the Lao constitution the Souvanna government must resign and present a new cabinet for the approval of the assembly elected last January. The Sananikones hope to force Souvanna to reshuffle his cabinet and to drop their nemesis, Sisouk, as finance minister. They also hope to force Souvanna formally to resign, thus undermining the prime minister's argument that his "coalition" government was invested by the 1962 Geneva Accords.

Souvanna is taking a hard line against the renewed challenge from the rightists. He has withdrawn his earlier commitment to reshuffle the cabinet and has made it clear that under no circumstances will he disrupt the continuity of the government by resigning. The burden of terminating the government will thus fall on the assembly, and Souvanna appears confident that the Sananikones lack the votes to force the issue in the assembly.

Souvanna has moved quickly to line up support. During a meeting on 21 July, he gained the strong backing of top military leaders--including General Kouprasith, whose influence is in the Vientiane area and who has long-standing ties to the Sananikone family. The generals and prominent civilian politicians are now lobbying with assembly deputies on Souvanna's behalf.

The timing of the prime minister's next move will depend on how much support he calculates he has in the assembly. He has indicated that he may

outwait the Sananikones, but if the proselytizing effort goes well, he could move as early as 26 July to present his cabinet for the assembly's approval. In the unlikely event that Souvanna lost such a vote, the King would probably dismiss the assembly and call for new elections.

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25X1

24 Jul 72

Central Intelligence Bulletin

5

25X1

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Approved For Release 2003/06/25 : CIA-RDP79T00975A022400030001-9

CHILE: President Allende has scheduled a rally tomorrow during which he will announce new economic policies that may include radical currency reform.

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[redacted] economic officials of the Chilean Government are making preparations to recall currency now in circulation and to issue a limited amount of new money. Such a move would sop up excess purchasing power overnight if, as is likely, the price structure remains unchanged. Currency reform would be a far more effective tool than rationing to deal with mounting inflation and spreading shortages.

Such a reform could be structured in a way that would protect lower income groups. It would, however, have an extremely adverse effect on middle- and upper-class Chileans. Many of them have stripped their companies and farms for cash gains in expectation of expropriation or other losses and still have large escudo holdings despite their vigorous efforts to convert them into goods or foreign assets. Even those wealthy citizens who legally dare to turn in these holdings would receive only a fraction of their value.

The only way the Allende government can successfully institute its currency reform is by administrative fiat. Congress is controlled by opposition parties whose financial resources would be severely affected. Moreover, public knowledge of the government's plan would trigger a nationwide panic and aggravate already severe shortages of goods and foreign exchange. [redacted]

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25X1

24 Jul 72

Central Intelligence Bulletin

6

Approved For Release 2003/06/25 : CIA-RDP79T00975A022400030001-9

25X1

25X1

Approved For Release 2003/06/25 : CIA-RDP79T00975A022400030001-9

Next 1 Page(s) In Document Exempt

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